

Message Text

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ACTION EUR-12

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USEEC; USOECD

E.O. 11652: NA
TAGS: EFIN, PINT, IT
SUBJECT: NEW ITALIAN TREASURY/FINANCE TEAM

1. SUMMARY. FORMATION OF NEW ANDREOTTI GOVERNMENT INVOLVED TWO SHIFTS AMONG IMPORTANT ECONOMIC MINISTRIES. WHILE MORLINO REMAINED AT BUDGET AND PLANNING OSSOLA AT FOREIGN TRADE, STAMATI WAS MOVED OUT OF TREASURY TO PUBLIC WORKS, PANDOLFI WAS SHIFTED FROM FINANCE TO TREASURY, AND MALFATTI REPLACED PANDOLFI AT MINISTRY OF FINANCE. OF THESE CHANGES, MOST SIGNIFICANT WAS APPOINTMENT OF PANDOLFI TO TREASURY. WHILE HIS "PROMOTION" TO TREASURY HAS BEEN GENERALLY ACCALIMED, SOME OBSERVERS HAVE BEEN CRITICAL OF THE DECISION TO REMOVE HIM FROM FINANCE WITH RISK THAT THIS WOULD SLOW DOWN ON-GOING PROCESS OF IMPROVED TAX COLLECTION AND WITH MAJOR REORGANIZATION OF THE FISCAL MACHINERY ABOUT TO BE INITIATED. IN ADDITION, MALFATTI'S NOMINATION HAS BEEN RECEIVED WITH SOME

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SKEPTICISM, ON THE BASIS THAT HE HAS A LOT TO LEARN IN A DIFFICULT AND CRITICAL JOB. STAMATTI'S DEPARTURE FROM TREASURY HAD BEEN WIDELY ANTICIPATED. BUT HIS RETENTION IN CABINET CAME AS A SURPRISE. OVERALL, WE DO NOT EXPECT THE RESHUFFLE OF THE ECONOMIC MINISTERS WILL HAVE A SIGNIFICANT IMPACT ON ECONOMIC POLICIES AND ON

ITALY'S INTERNATIONAL FINANCIAL RELATIONS.END SUMMARY.

2. TREASURY MINISTER FILIPPO PANDOLFI. PANDOLFI'S MOVE TO TREASURY HAS BEEN GENERALLY WELL-RECEIVED, ALTHOUGH SOME OBSERVERS HAVE DEcriED HIS REMOVAL FROM FINANCE AT THE THRESHOLD OF A MAJOR REORGANIZATION OF THE MINISTRY. PANDOLFI'S PERFORMANCE AT FINANCE HAD WON HIM THE REPUTATION OF A DYNAMIC AND EFFICIENT ADMINISTRATOR, AND HIS "PROMOTION" TO TREASURY IS WELL-DESERVED. WHILE HE MAY LACK THE TECHNICAL BACKGROUND AND FAMILIARITY WITH THE TREASURY THAT HIS PREDECESSOR HAD, HIS PERFORMANCE AT FINANCE LEAVES LITTLE DOUBT IN MOST PEOPLE'S MINDS THAT HE WILL QUICKLY "TAKE CHARGE" OF HIS NEW MINISTRY.

3. PANDOLFI'S PRESENCE AT THE TREASURY WILL LIKELY HAVE AN IMPACT ON THE OPERATION OF THAT MINISTRY AND ON THE GOVERNMENT'S EFFORTS TO REDUCE THE BUDGET DEFICIT BY CUTTING EXPENDITURES. ON THE OPERATION OF THE INDUSTRY, WE CAN EXPECT PANDOLFI TO TRY TO STREAMLINE ITS OPERATIONS--JUST AS HE HAD BEEN ATTEMPTING TO DO AT FINANCE. THERE IS PLENTY OF ROOM FOR IMPROVEMENT IN THE TREASURY MACHINERY, ESPECIALLY IF IT IS GOING TO MEET THE NEWLY EXPANDED CASH BUDGET REPORTING REQUIREMENTS(INCLUDING LOCAL GOVERNMENTS) IN A TIMELY FASHION. ALSO, PANDOLFI CAN BELIEVES THAT THE TAX BURDEN IN LIMITED OFFICIAL USE

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ITALY, PARTICULARLY ON WAGE AND SALARY EARNERS, HAS REACHED THE POINT BEYOND WHICH IT COULD BECOME A REAL DISINCENTIVE TO WORK. HE WAS REPORTEDLY AT ODDS WITH STAMMATI OVER THIS ISSUE. WHEREAS STAMMATI WANTED TO RAISE TAXES FURTHER TO REDUCE THE DEFICIT, PRESUMABLY BECAUSE OF THE DIFFICULTY OF CUTTING EXPENDITURES, PANDOLFI RESISTED SUCH MOVES. HENCE, PANDOLFI WILL LIKELY BE A STRONG EXECUTOR OF ANDREOTTI'S GOAL TO REDUCE EXPENDITURES BY 5 PERCENT IN 1978. IN FACT, WE FEEL THAT HE WILL BE BETTER AT THIS TASK THAN STAMMATI WOULD HAVE BEEN BECAUSE OF A STRONGER POLITICAL BASE AND THE REPUTATION FOR COMPETENCE WHICH HE HAS DESERVEDLY EARNED, AN UNCOMMON ACCOMPLISHMENT IN ITALIAN CABINETS.AS A FOOTNOTE TO PANDOLFI'S MOVE TO TREASURY, HE EVIDENTLY DID NOT SEEK THE OB AND REPORTEDLY ONLY LEARNED ABOUT THE MOVE WHEN ANDROTTI ANNOUNCED THE NEW CABINET ON TELEVISION.

4. WITH RESPECT TO ITALY'S INTERNATIONAL FINANCIAL RELATIONS, PARTICULARLY THOSE WITH THE IMF AND THE EC, NO BASIC CHANGE IS EXPECTED FROM THE APPROACH OF STAMMTI. DURING THE FORTHCOMING DISCUSSIONS WITH THE IMF, PANDOLFI WILL PROVE A VALUABLE INTERLOCUTOR. HE WILL

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NO DOUBT SUPPORT THE KIND OF STABILIZATION PROGRAM
LIKELY TO BE FAVORED BY THE FUDD, AND WILL WORK HARD
TO IMPLEMENT IT. PANDOLFI SPEAKS GOOD ENGLISH.

5. FINANCE MINISTRY-FRANCO MALFATTI. MALFATTI'S
APPOINTMENT AS FINANCE MINISTER CAME AS A
SURPRISE AND HAS BEEN CRITICIZED BY SOME. THE
CRITICISMS ARE BASED ON THE FACT THAT HE HAD HAD NO
DIRECT EXPERIENCE TO PREPARE HIM FOR THE DIFFICULT
JOB OF RUNNING THE MINISTRY OF FINANCE, SUCH CRITICISM,

HOWEVER, MAY BE PREMATURE. IT HAS BEEN NOTED
THAT MALFATTI GOES TO FINANCE WITH THE SAME GENERAL
PREPARATION AS PANDOLFI (ALTHOUGH PANDOLFI SERVED FOR
A YEAR AND A HALF AS UNDER SECRETARY BEFORE BECOMING
MINISTER). FUTHERMORE, GIVEN THE MANNER IN WHICH
MINISTRIES ARE ALLOTTED, IT IS FAIRLY RARE
THAT A MINISTER WOULD HAVE MUCH SPECIFIC PREPARA-
TION. THUS, IT IS REALLY TOO EARLY TO PASS JUDGMENT
ON MALFATTI'S LIKELY PERFORMANCE AS FINANCE MINSTER.
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6. ONE FACTOR THAT WILL BE OPEATING IN Malfatti's FAVOR IS THAT THE STREAMLING AND REORGANIZATION BEGUN BY PANDOLFI HAVE TAKEN ON A MOMENTUM OF THIER OWN. HE WILL, HOWEVER,HAVE TO FACE THE ESSENTIAL CHOICES IN REORGANIZING THE MINISTRY AND HAVE TO TAKE CHARGE OF THE REORGANIZATION A RISKY AND THANKLESS JOB IN ANY GOVERNMENT. Malfatti, LIKE PANDOLFI HAS HAD SOME BUSINESS EXPERIENCE AND IS SUPPOSED TO BE A GOOD AD-MINISTRATOR. HIS PERFORMANCE AT THE EDUCATION MIN-ISTRY, HOWEVER, WAS LESS THAN SPARKLING.

7. WHILE LITTLE IS KNOWN ABOUT Malfatti's FISCAL PHILOSOPHY, GIVEN HIS POLITICAL ORIENTATION, WE CAN EXPECT IT TO BE NOT MUCH DIFFERENT FROM THAT OF PANDOLFI. ALSO, GIVEN PANDOLFI'S INTERESTS IN THE CHANGES HE HAS BEGUN AND GIVEN HIS DYNAMIC PERSONALITY, HE WILL NO DOUBT TRY TO MAINTAIN SOME INTEREST IN THOSE AREAS. FURTHER, THE UNDERSECRETARIES IN FINANCE REMAIN UNCHANGED.

8. Malfatti HAS BEEN IN POLITICS FOR OVER 25 YEARS AND RECEIVED HIS FIRST CABINET APPOINTMENT IN AUGUST 1969 AS MINISTER OF STATE PARTICIPATION, A JOB HE HELD THROUGH FEBRUARY 1970. SUBSEQUENTLY, HE WAS FOR THREE MONTHS MINISTER OF POST AND TELECOMMUNICATIONS, DURING 70-72,HE WAS PRESEIDENT OF THE EUROPEAN COMMUNITIES, FROM WHICH HE RESIGNED TO RUN FOR RE-ELECTION TO PARLIAMENT.HE SPEAKS NO ENGLISH.

9. PUBLIC WORKS MINISTER GAETANO STAMMATI. FINALLY, THEMOVE OF STAMMATI TO THE PUBLIC WORKS MINISTRY MAY HAVE SOME POSITIVE ASPECTS. STAMMATI WAS PROBABLY MOVED FROM TEASURY BECAUSE,WHILE LIMITED OFFICIAL USE

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HE WAS A GOOD TECHNICIAN,HE WAS NOT A GOOD POLITICIAN. HIS RETENTION IN THE GOVERMENT IS PROBABLY DUE TO HIS LONG-STANDING FRIENDSHIP WITH ANDREOTTI AND HIS REPUTATION AS A FIRST-RATE EXECUTIVE. THAT TALENT, AND THE FCT THAT HE IS NOT A POLITICIAN, MAY HAVE A SALUTARY IMPACT ON PUBLIC WORKS, LONG THE PRINCIPAL PORK BARREL OF ITALIAN POLITICS. THIS MINISTRY IS LIKELY TO BE OF EVEN GREATER IMPORTANCE IN THE NEAR FUTUREIF THE ANDREOTTI ECONOMIC PROGRAM IS SUCCESSFUL. IN SHIFTING THE COMPOSITION OF PUBLIC EXPENDITURES FROM TRANSFERS TO INVESTMENT, LARGELY IN PUBLIC WORKS.IF THAT IS THE CASE,SAMMATI WILL BE WELL POSITIONED TO HAVE A POLICY INPUT IN DETERMINING NATIONAL INVESTMENT PRIORITIES. GARDNER

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